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Implementation of the programme for the Second Industrial Development Decade for Africa (1993-2002)

Report of the Secretary-General

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I. Introduction

1. The present report has been prepared pursuant to General Assembly resolution 52/208 on the Second Industrial Development Decade (IDDA-II).

2. Industrial development to create jobs and fight poverty in Africa emerged as a major priority at the recent first meeting of the Patrons Group of Heads of State and Government of the Alliance for Africa's Industrialization, held at Algiers on 13 July 1999 on the occasion of the thirty-fifth ordinary session of the Assembly of Heads of State and Government of the Organization of African Unity (OAU) Summit (Algiers, 12-14 July 1999) (for the final communiqué of the meeting, see annex). The priority given to industrial development at this session of the Summit of all African leaders underscores the critical importance of strengthening the programme for IDDA-II as a catalyst for promoting industrial development in Africa.

3. Section II of the present report briefly analyses industrial development trends in the region, with a focus on challenges faced by African countries in enhancing industrial competitiveness under globalization, and highlights new priorities for promoting private investments in the manufacturing sector. Section III presents the support programmes for IDDA implemented by the United Nations Industrial Development Organization (UNIDO) and the Economic Commission for Africa (ECA), the two lead implementing agencies for IDDA. Section IV reports on progress in the implementation of the Plan of Action of the Alliance for Africa's Industrialization (AAI), as requested by the General Assembly in its resolution 52/208. Section V contains conclusions and recommendations.

II. Economic and industrial development trends in Africa

A. Review of current economic and industrial situation

4. After two decades, during which the region lost market share in global trade, manufacturing value added (MVA), and foreign direct investment (FDI), the economies of sub-Saharan Africa witnessed improved growth rates between 1995 and 1998. However, growth prospects for 1999 and 2000 remain modest in the light of the global economic problems resulting from the recent financial and economic crises in other developing regions. Despite the recovery, per capita income is still lower than it was 20 years ago in some 20 countries in the region. Africa's share of world exports is only 1.8 per cent, its contribution to industrial production 0.3 per cent and foreign direct investments (FDI) are less than one per cent of world total inflows. Sub-Saharan Africa's external indebtedness corresponds to 80 per cent of gross national product. Unless continent-wide growth rates can be accelerated significantly, it will take until 2010 to regain the per capita income levels of 1974. Today's development agenda for Africa must necessarily be aimed at seizing the opportunities offered by global technological breakthroughs and minimizing the negative impacts of globalization.

5. The marginalization of Africa in the trade and the FDI bonanza brought about by globalization is coupled with mounting evidence that deepening poverty belies the recent growth in GDP reported in most countries. There is a growing concern that after a decade of structural adjustment programmes, poverty has deepened in most countries. The 1999 Economic Commission for Africa (ECA) report estimates that about 51 per cent of sub-Saharan Africa's population lived below the poverty line of $34 per person per month in the early 1990s, and that there is great inequality in the distribution of income. In 1998, only seven out of 53 countries in Africa as a whole had a per capita income exceeding $2,000, while 40 had a per capita income of less than $1,000. The report concludes that if Africa were to reduce poverty by half over the next decade and a half, it would need to attain and sustain an average growth rate of 7 per cent per annum.

6. It is clear that such high growth rates can only be achieved and sustained if efforts are made to diversify the production base of African economies, particularly the expansion of the manufacturing sector and other industrial activities to which the international community has committed itself in General Assembly resolution 49/142. Various empirical studies have shown that a 1 per cent growth in GDP requires more than a 1 per cent growth in manufacturing value added. Therefore, in order for African economies to grow fast the industrial sector will need to grow faster, with spillover effects on other sectors of the economy. Assuming MVA growth of 4 per cent annually, it will take until 2002 to regain 1991 output levels.

7. An important reason for the recent improved performance of Africa's economy is the beginning of recovery in the manufacturing industry. However, the post-1995 upturn represents recovery rather than growth. The sluggish growth of manufacturing is partly attributed to the fact that production activity is highly concentrated in those sectors that are growing relatively slowly or which face declining global demand. Manufacturing is dominated by

production for domestic demand and the semi-processing of raw materials for export. While production for the domestic market is critical to satisfying the needs of the local market, in order for African countries to become competitive in the new global environment they will have to focus on exports of new products for which there is growing demand. Three broad sectors account for over two thirds of value added, with food, beverages and tobacco products contributing the largest share (40.6 per cent in 1996), followed by clothing, textiles, footwear and leather products (14.3 per cent in 1996), and chemicals, petroleum refining and coal products (13.9 per cent in 1996). Specifically, food processing is the largest branch (22.9 per cent of total MVA in 1996), followed by beverages (13 per cent in 1996) and textiles (8.9 per cent in 1996).

8. In the emerging knowledge-intensive and skill-intensive global markets, a country or region's share of manufactured exports is a measure of its access to learning and technology. Africa's heavy dependence on primary commodity exports (accounting for about 80 per cent of total export earnings) is evidence of the low level of human resource development and limited technological capability to take advantage of emerging trade and investment opportunities. Policy pragmatism requires that more resources be directed towards expanding the degree of processing of primary commodities to escape the vagaries of world commodity prices, and that industrialization has a crucial role to play in enhancing sustainable livelihood patterns through income generation and employment creation. Enhancing value added is a prerequisite for ensuring higher rural incomes as well as for facilitating rural industrial development. Thus, Africa's struggle to achieve rapid economic transformation will be lost or won depending on how effectively industrial development is linked with agricultural development through enhanced manufacturing value added, productivity and competitiveness, with an accent on employment and income generation.

9. Industrial employment is concentrated in four labour intensive sectors, which account for over half of total employment and 48 per cent of MVA. Food manufacturing accounts for over a quarter of employment, followed by textiles (18 per cent), beverages (6.6 per cent) and clothing (6.5 per cent). With a forecast that in 20 to 25 years more than half of Africa's population will reside in cities, the critical need for industrial expansion cannot be overemphasized. Further, the structure of industrial employment underscores the importance of enhancing the linkages between industrial and agricultural development as a vehicle for job creation and poverty eradication.

10. When compared with global trends, a striking feature of African industrial development in the last two decades has been the fall in productivity. Employment expansion in manufacturing exceeded the rate of population growth in sub-Saharan Africa in the 1980s due largely to strong output and employment growth. Since then, employment growth has fallen to approximately half the rate of population expansion, with little evidence of any shift towards more capital-intensive production techniques. Indeed, over the period as a whole, employment grew faster than output, resulting in over-manning and declining productivity, which in turn helps explain why sub-Saharan Africa is finding it so difficult to break into world export markets for manufactured goods. Costs of factor inputs are abnormally high.

11. Therefore, if current trends in Africa's manufacturing sector continue, the region runs the risk of being further marginalized in the emerging knowledge-intensive or skill-intensive global economy of the twenty-first century. Studies show that sub-Saharan Africa per capita income levels relative to Organisation for Economic Cooperation and Development (OECD) levels have halved, from 14 per cent in 1965/66 to just 7 per cent in 1995. Effective economic governance and new initiatives are needed to enhance Africa's capacity to reap the benefits of globalization while minimizing its negative impacts. Through renewed support for IDDA, efforts must be intensified to reduce the gap between those with knowledge and skills and those without, as well as to facilitate foreign and domestic private sector investment in the value chain of primary products and other manufacturing activities in order to address the emerging problems of the technology gap, urban unemployment and rural poverty.

12. The critical issue to be put on the development agenda for Africa is why macroeconomic reforms in Africa have not generated the expected microeconomic responses and have not promoted significant changes in technological capability, improvements in factory-wide skill levels, higher productivity, better manufactured export performance and greater value added in the domestic economies. These are the elements that determine a country's or region's successful integration into the global economy. In the case of Africa, where economies are mainly agrarian and where most countries are already way behind on the technological ladder, the challenges to achieve economic transformation and industrial competitiveness are very formidable.

B. Emerging challenges for African industries in the context of globalization

13. At the dawn of a new century, Africa faces serious challenges to catch up with the rest of the world since global rules for trade are changing and since the region is starting at a weak position, unlike other developing regions. Living standards have diverged from those of the developed countries and the fast-growing newly industrializing countries. It is clear that integrating African economies into the process of globalization will yield significant dividends, and will enable its industries to tap into global financial and technological flows, with subsequent positive impacts on income levels and social development. However, a number of key industrial development challenges lie ahead, as described below.

Enhancing industrial response to stabilization measures

14. Since the mid-1980s, a number of African countries have adopted stabilization measures in varying degrees. But the degree of responsiveness to macroeconomic stability has remained weak in a large number of African countries. The weak industrial supply response is ascribed largely to supply-side rigidities resulting from infrastructural bottlenecks and demand constraints due to low purchasing power. It is becoming increasingly clear that adjustment policies designed to correct macroeconomic imbalances, are in fact causing the demise of nascent industries. Stabilization and structural adjustment policies have exposed the weaknesses of many industrial sectors, yet no coherent strategies focusing explicitly on the industrial sector were included in adjustment programmes. Trade liberalization has also resulted in large inflows of cheaper commodities, thus effectively reducing demand for domestically produced goods and exerting downward pressure on prices, while the corresponding devaluation has not only increased cost of production but also drastically increased the costs of servicing foreign loans and replacement of investments. Therefore, to enhance industrial response, urgent attention needs to be paid to improved skills, diversifying industrial production and improving financial services, among others.

Converting comparative advantages without competitiveness

15. Comparative advantages are based on resource endowments, and competitiveness stems from a combination of appropriate policies and firm-centred initiatives. Industrial policy must be formulated in order to enhance the capability of African economies to compete in the international market by transforming their comparative advantages into enterprise-level competitiveness. According to the first *African Competitiveness Report*, published by the World Economic Forum in 1998, the most important problematic factors for doing business in sub-Saharan Africa are, *inter alia*, (a) tax regulation regimes, (b) difficulties in raising local financing, (c) weak infrastructure and (d) poor economic governance.

16. Other information presented in the *Report* shows that average wages measured in dollar terms have declined by almost 20 per cent during 1985-1994. The message is clear: cheap labour and cheap raw materials are not sufficient for enhancing competitiveness in Africa and improving Africa's share in world trade. Enhancing industrial competitiveness will require investment in embodied technology (plants, equipment, licences, blueprints etc.), accompanied by investments in skills, information, organizational improvements, and linkages with other firms and institutions. Major causes of low productivity and competitiveness growth are ascribed to supply-side rigidities, inefficient value chain logistics, high transactions cost, infrastructural bottlenecks, and low managerial and skill levels.

Removing infrastructural bottlenecks

17. Africa's long-term industrial growth and competitiveness is greatly impeded by its poor infrastructural capacity. Relieving these constraints should be a priority for government development expenditure. Many sectors have higher costs because of deficiencies in transport systems. A lack of rural roads leads to large wastage in fruit and vegetable production after harvesting, and this is true of many other agricultural crops. This deprives agro-industries of cost-effective inputs. Deficient electricity and water supplies raise costs, curtail production and thereby discourage investment.

Establishing the missing middle

18. The "missing middle" between large, mainly foreign-owned, enterprises and small and informal manufacturing activities is the root cause of the lack of forward and backward linkages in Africa. Many of the small enterprises in Africa are very different from the small and medium-sized enterprises (SMEs) that have been the engine of economic transformation in Asia and Latin America. A particular issue is that African microenterprises usually fail to grow ("graduate") into being small enterprises, and small enterprises may not graduate into being medium ones. There

is a "missing middle" of medium enterprises. In practice, of course, growth constraints on small businesses are likely to differ between sectors. Some sectors, such as engineering, are constrained by foreign exchange unavailability for spare parts or raw materials. Lack of consumer demand growth is one serious constraint, and access to credit is probably a major constraint limiting the growth of small enterprises.

Reducing eco-efficiency compliance cost and facilitating market access

19. At present, industrial pollution in Africa is low by international standards. With increasingly strict environmental regulations being imposed in the developed world, African countries are forced to meet higher environmental standards to gain market access for their exports. Environmental regulations can affect process standards, product standards and standards of discharge. Eco-labelling also imposes environmental standards on African country exporters. Under General Agreement on Tariffs and Trade (GATT)/World Trade Organization (WTO) rules, import requirements cannot stipulate process standards (that is, how a product is produced) but can stipulate product standards. However, to comply with product standards, it is often necessary to alter the production process. Complying with international environmental standards affects the cost competitive climate by imposing compliance costs on enterprises and regulatory costs on Governments. Compliance costs are likely to be greater in the short run since they involve immediate investment expenditure, and compliance costs are greater for some industries than others. Chemicals, pulp and paper, mining and oil refining are likely to be among those most affected. Small and medium enterprises find these costs difficult to bear, given that such enterprises lack information about the details of overseas standards and lack access to credit to cover the cost of new investments.

Promoting subregional integration and industrial cooperation

20. The volume of intraregional trade and the degree of industrial complementation do not suggest a big success in subregional cooperation despite efforts undertaken for decades. The reasons for the hitherto limited success in this direction are ascribed to similar resource endowments across countries in a given subregion. But this is changing at the turn of the century due to the fact that knowledge, skills and absorptive capacity of innovative technologies are increasingly driving the process of industrialization in the late 1990s. The strengthening of regional trading arrangements, such as the 16-member Economic Community of West African States (ECOWAS), the 20-member Common Market of Eastern and Southern Africa (COMESA) and the Southern African Development Community (SADC) are potentially useful catalysts for regional market growth based on emerging forces of industrial complementation.

Harnessing science and technology to accelerate productivity

21. Science and technology are vital to accelerate productivity and a crucial factor for competitiveness in the global market. In the age of globalization, efficient production, including meeting quality requirements and the attainment of expected standards, will be the main elements in defining competitiveness. At the same time, countries will have to be strategic in defining their comparative advantage and doing all it takes to exploit these advantages. African countries, for example, will have to exploit the comparative advantage in their vast supply of natural resources and raw materials. Growth in primary and extraction industry, areas in which Africa has the potential of having comparative economic advantages, should be improved with the selective application of science and technology. Providing adequate support to science and technology for accelerated industrial development will allow for the upgrading of raw materials and the profitable exploitation of the region's natural resources. Science and technology is essential to transform the region's vast natural resources and for adding value to the raw materials and commodities so as to attract better market price. With the progressive liberalization of trade and the gradual elimination of protectionism, Africa's goods will have to compete more aggressively in the world market, and this will require the application of science and technology to enhance quality and standards.

Improving information and communications technology as tools for enhancing competitiveness

22. Information and communications are essential to private sector economic competitiveness. Availability and quality of access to information and communications technology services is increasingly important in development, in particular private sector development. For the private sector, being "plugged in" to information and communications systems and networks is essential to economic competitiveness. On the economic competitiveness front, no country, including its private sector, can afford to be without efficient, reliable, cheap communications. In Africa, private sector competitiveness will increasingly depend on the pace of development in the information and communications sectors, and should be seen

as one of the areas for cost saving. Most small and medium-sized industries/enterprises cannot afford the high cost of information and communication, given the fact that most of these businesses to begin with operate on very low financial resources. Developments in the information and communications sectors are introducing new dimensions and shifts in economic transactions. For instance, the use of electronic commerce to facilitate trade transactions illustrates the ease with which business transactions can take place through electronic means and the level of opportunities offered for accessing global markets. Countries have to face up to these realities of the global economic environment. However the current state of information and communications technology in the Africa region is characterized by poor-quality services, limited access and high operational costs. At a time when global communications is a crucial factor for economic growth, the development of an efficient information and communications system presents one of the critical challenges to be addressed. The urgency for strategic directions and actions to promote the development of information and communications technology in African countries, especially in support of private sector development, cannot be overemphasized.

C. Addressing the emerging challenges of Africa's industrialization through the IDDA programme

23. Addressing the emerging challenges of Africa's industrialization is an ambitious prospect, given the low level of development in this sector and the myriad of problems reviewed above. On close examination of these problems, it is obvious that productivity is at the heart of all these issues and should be the main target for collective and individual response. The good news is that IDDA provides a framework both in terms of content and approach for addressing the many interrelated issues of productivity implied in the above challenges. Observations from the mid-term evaluation points to the need to reorient and focus IDDA activities around four priority areas: private sector entrepreneurship development, human resources development, subregional and regional integration, and the promotion of environmentally sustainable production as critical productivity concerns of the industrial sector. By design, the IDDA programme addresses these priority areas by focusing on issues related to policy and capacity as the cornerstone for tackling the productivity concerns of the industrial sector.

24. With respect to the approach, the IDDA programme to a large extent supports industrial development through simultaneous interventions at the macro, meso, sectoral and micro levels in order to tackle problems in a holistic manner. There has been a shift from providing scattered single projects in various countries towards a more comprehensive approach to solving industrial development problems. The new approach stresses the need for better integrated (or comprehensive) technical cooperation programmes, regular dialogue with key stakeholders in the countries, especially those in the private sector, and stronger partnership among United Nations agencies and donor agencies to promote private sector-led industrial development and good corporate governance through interactive policy formulation and implementation.

25. In line with these expectations, the priority focus of UNIDO's programme is the development of SMEs as the principal means of achieving equitable and sustainable development, particularly in the least developed countries in sub-Saharan Africa. Emphasis is given to capacity-building and technology transfer in agro-industries and the promotion of women entrepreneurs. The thematic areas for IDDA programme development are based on the business plan adopted by the member States of UNIDO in December 1997, which include:

(a) Strengthening of industrial capacities through:

(i) Promotion of investment and related technologies;

(ii) Industrial policy advice based on action-oriented research;

(iii) Institutional capacity-building at the country and sectoral levels;

(iv) Quality, standardization and metrology;

(v) Industrial information through networking, including information on the transfer of technology;

(vi) Industrial statistics;

(b) Cleaner and sustainable industrial development through:

(i) Support programmes on environmentally sustainable industrial development strategies and technologies;

(ii) Development of specific norms and standards relating to environmentally sustainable industrial development strategies and technologies, and implementation of international protocols, agreements and conventions.

26. In this context, ECA has targeted private sector development as the main area on which to focus its programme. In the framework of its strategic directions, ECA is taking a focused approach in support of private sector development covering the environment for both small and large-scale enterprises. One way in which ECA is promoting an enabling environment for private sector development is by facilitating dialogue between government and the business community. Private sector development is also being pursued through support for human resources and technical skills development so as to promote efficient business operations that meet the demands of internationally accepted standards and quality. In this respect, emphasis is placed on:

(a) Strengthening the micro and informal enterprise sector by:

(i) Promoting policies to foster the sustainability and growth of these enterprises;

(ii) Addressing their financial needs;

(iii) Facilitating the development and functioning of effective national support structures and networks to provide assistance to these enterprises;

(iv) Developing programmes to improve their management and operational capacity;

(v) Strengthening the links between support centres and business;

(b) Enhancing entrepreneurial capabilities and industrial manpower through:

(i) Assessment of training needs;

(ii) Assistance in the development of training programmes;

(iii) Support to institutions engaged in enhancing entrepreneurial capabilities.

III. Support programmes for implementing IDDA

27. The present section provides a summary of specific actions taken by UNIDO and ECA to support the attainment of the goals and objectives of IDDA during the 1998-1999 biennium. While recognizing that these two organizations have important roles to play in this regard, the Secretary-General, through ACC, has been encouraging relevant agencies and organizations to increase resources for industrial activities in Africa.

A. United Nations Industrial Development Organization

Integrated industrial development country programmes

28. Within the context of UNIDO programmatic transformation and the Plan of Action of the Alliance for Africa's Industrialization, the IDDA programme was refocused in 1998, with particular emphasis on more effective country-level programming and alignment of the country programmes to the United Nations Development Assistance Framework (UNDAF). The new service modules of UNIDO, which define the core services provided by the organization, form the cornerstone of the IDDA technical assistance programmes. The new integrated approach is to promote capacity-building at the macro, meso, sectoral and enterprise levels, through comprehensive technical cooperation programmes. The scope of the IDDA programmes also covers follow-up to global initiatives for Africa, including the United Nations System-wide Initiative on Africa, United Nations New Agenda for the Development of Africa (UN-NADAF) and the Second Tokyo International Conference on African Development (TICAD-II). The System-wide Initiative, one of the main foundations/mechanisms for United Nations initiatives on Africa, is the implementing arm of UN-NADAF.

29. A number of key principles have guided programme formulation. Programmes must be demand-driven; their local ownership and sustainability must be ensured; multidisciplinary solutions should be pursued, where applicable; and there must be a direct impact on employment, competitiveness and environmental sustainability. UNIDO launched the new approach in seven countries in 1998, and by June 1999 had finalized programmes in 15 African countries, including eight least developed countries. Programmes were finalized in Algeria, Burkina Faso, Côte D'Ivoire, Ethiopia, Ghana, Guinea, Kenya, Morocco, Mozambique, Rwanda, Senegal, Sudan, Tunisia, Uganda and the United Republic of Tanzania. The total value of these programmes is $103 million. Programmes will be developed for another 10 countries in the second half of 1999 and early 2000, with an estimated value of $45 to 50 million; these countries include Burundi, Cameroon, Lesotho, Mali, Madagascar, Namibia, Nigeria, Togo and Zimbabwe.

Partnership with donors and African member States for funds mobilization

30. The attention of the General Assembly is brought to the urgent need for adequate financing for the implementation of these country programmes. So far, UNIDO has contributed $10.47 million from its programmable resources to launch the programmes. Significant support has also been received from UNDP resident representatives, who have financed programme formulation missions and also pledged funds for programme implementation. Some donor support, up to the tune of US$ 20 million, has been received for specific country programmes from Belgium, Denmark, Finland, France, Ireland, Italy, Japan, the Netherlands and Switzerland. Further financial support is urgently needed to implement effectively the programmes and achieve greater impact on employment, poverty and industrial competitiveness. The critical importance of funding country-level programmes has also been highlighted in the declaration of African leaders during the July 1999 mini-summit of African Heads of States on industrialization held in Algeria as part of the thirty-fifth session of OAU.

Conference on industrial partnerships and investment in Africa

31. Pursuant to the call for a donors conference on the financing of industrial projects contained in General Assembly resolution 52/208 and the Harare Declaration of the OAU Assembly of Heads of State and Government, the Steering Committee of the Alliance for Africa's Industrialization decided at its first meeting, in September 1998, that the donors' meeting would be organized as the Conference on Industrial Partnerships and Investment in Africa so that it would address broader concerns, relating to industrial development, than the mobilization of funds alone.

32. The Conference will be organized by UNIDO, with the collaboration of the African Development Bank, the Economic Commission for Africa and the Organization of African Unity, at Dakar on 20 and 21 October 1999. The Conference will consist of two interrelated forums: (i) a forum to discuss issues related to industrial development, partnerships and investment in Africa, including the financing of small and medium industries; and (ii) a forum to identify resources and to decide on measures to be taken for financing the technical cooperation programmes recently formulated by UNIDO in cooperation with more than 20 African countries and in the context of AAI. This forum will also offer an opportunity to confirm commitments already made towards the financing of these programmes.

33. The main objective of the Conference is to address comprehensively the critical problems of industrial development in Africa, through deliberation of, *inter alia*:

(a) The creation of an enabling environment conducive to private sector-led industrial development;

(b) The building of capacity of African private enterprises and State institutions for a better management of the industrial sector;

(c) The provision of the necessary entry points for foreign investment and industrial partnerships in African countries;

(d) The identification of resources for technical cooperation programmes.

34. The following are some of the main discussion themes of the Conference:

(a) New dimensions of European Union (EU)-African, United States-African and Asian-African Cooperation;

(b) Privatization and industrial partnerships;

(c) Financing of small and medium-sized industries in Africa;

(d) Technical cooperation programmes for the industrial sector of African countries;

(e) Attracting capital for Africa's development;

(f) Investment environment, policies and incentives in Africa;

(g) Private sector capacity-building and promotion of entrepreneurship;

(h) Regional economic integration and investment promotion;

(i) Private financing of infrastructure.

Globalization and industrial development in Africa

35. In line with the new concept of the Conference, an active participation of business executives and business associations is envisaged for the Conference. For the promotion of investment projects, bilateral meetings will be organized in parallel with the Conference sessions to provide an opportunity for investors and potential partners to discuss selected investment projects. Most of the discussion panels are also devoted to issues related to the promotion of industrial partnerships and the investment environment in Africa. In addition to African policy makers and Government leaders, African and foreign corporate executives have been

invited to participate as panellists in various Conference sessions.

Investment promotion and Asia-Africa/South-South cooperation under TICAD-II

36. The goals and objectives of the Plan of Action of the Alliance for Africa's Industrialization have been incorporated into the Tokyo Agenda for Action, which is the outcome of the Second Tokyo International Conference on African Development, held at Tokyo in October 1998, and co-organized by the Government of Japan, the Office of the Special Coordinator for Africa and the Least Developed Countries of the United Nations Secretariat, the United Nations Development Programme (UNDP) and the ECA Global Coalition for Africa. In this connection, with $1 million funding from the Japanese Government, UNIDO has initiated the establishment of the Asian-African Investment and Technology Centre at Kuala Lumpur. The centre is one component of a multidimensional approach to foster Asia-Africa industrial cooperation. Consistent with the TICAD-II strategic approach, the centre will place priority on the strengthening private sector partnership for trade facilitation and investment. A four-pronged strategy will be adopted: promoting capacity-building for investment and technology transfer between Asia and Africa; enhancing access to business information; completion of partnership arrangements through technical expertise and provision of finance; and mobilization of financial resources for new promotional activities. Also, under another new pipeline programme to be funded by the Japanese Government, support will be provided to entrepreneurs and business associations to increase the production and processing of soya beans in Zimbabwe, Malawi and the United Republic of Tanzania.

Coordination and strategic alliances at the country level

37. To enhance programme delivery at the country level, greater efforts have been made to restructure and strengthen UNIDO field offices in Africa. In particular, three regional offices will be established in 1999 and 2000 in East, West and Southern Africa. Each regional office will have a multidisciplinary technical team to ensure more rapid response to country requests and more effective support to the network of UNIDO country offices. These teams will also provide regular information on emerging industrial development trends and challenges, and also identify key areas for closer cooperation with multilateral and bilateral donor agencies. Further, additional financial resources will be decentralized to country offices to provide greater flexibility in providing short advisory services to member States and to facilitate regular public and private sector policy dialogue.

38. A much stronger partnership with UNDP will be particularly critical given its priorities of sustainable human development, poverty alleviation and enhanced income generation opportunities. These UNDP priorities are consistent with UNIDO's mandate to foster economically and ecologically sustainable industrial development, through the promotion of competitive economy, employment creation and environmentally friendly production. The new agreement signed by the Director General and the Administrator of UNDP in early 1999 opened the door for new avenues of cooperation between the two institutions and also the greater involvement of UNIDO in the United Nations resident coordinator system at the country level. Efforts have been made to synchronize UNIDO programme development with the programming cycle of UNDP and the UNDAF process, and to institutionalize periodic visits of resident representatives/coordinators to UNIDO in order to enhance their understanding of the IDDA programme. Similar cooperation/coordination arrangements are being worked out with UNCTAD and the International Labour Organization (ILO). It is also envisaged that through the new WTO integrated framework for trade-related technical assistance for least developed countries initiative, the IDDA programme could contribute to efforts to enhance market access for African industrial products.

B. Support programmes and activities: Economic Commission for Africa

Fourteenth meeting of the Conference of African Ministers of Industry

39. The Conference of African Ministers of Industry (CAMI) continued to be a forum for discussing issues related to Africa's industrialization and the role of the private sector. It continued to provide leadership in the formulation of policies and strategies for Africa's industrial development. Since the launching of IDDA, its principal objective has been to examine and follow-up on progress made in the industrialization of African countries, and to recommend measures at the national, subregional, regional and international levels to accelerate the process of industrialization.

40. The fourteenth meeting, on the theme "Industrialization and poverty eradication", will examine how industrial development could contribute to poverty

reduction. An integral component of the Ministers' deliberation is the Conference on Industrial Partnership and Investments in Africa, aimed at coming up with a set of measures to strengthen the participation of the private sector in the industrialization process in Africa.

Programmes to improve private sector development

41. ECA activities are in general aimed at sustaining the long-term development of the private sector to take on the industrial development challenges. As such, specific focus was placed at enhancing private sector competitiveness, with particular emphasis on the sustainable development of small and medium-sized industries. The SME and microenterprises for now are the engines of growth in government strategies to boost productivity and reduce poverty. They play important roles in the economies of many African countries and are the ferment of the enterprise spirit. They not only contribute as a source of employment but also provide the conditions to enable graduation from the informal to the modern formal sector. However, the development of microenterprises is facing many problems, most notable those associated with their formation, compliance with stringent regulations and poor access to resources.

42. In this respect, activities in enterprise formation have aimed at strengthening the operational environment of the private sector to face the challenges of market forces and globalization. Special attention has been given to the preparation of synthesis of experiences in the promotion of private sector activities, including entrepreneurial activities, in Africa. A number of other strategic activities covering articulation of policies, strategies, practices and institutional frameworks for the creation of an enabling environment for enterprise formation have formed an integral component of the assistance provided.

43. The issue of access to resources is addressed mainly through the promotion of microfinancing as an instrument for sustaining the operations of micro, small and informal sector enterprises. Activities in this area are designed to create awareness on the role of microfinancing in private sector development, articulating policies and strategies and practices to popularize microcredit, and appropriate financial intermediation support for microenterprises. Other activities help to build the microfinancing institutional base and assist in the operationalization of mechanisms for the active involvement of financial institutions in private sector activities, especially micro-activities.

44. Privatization to many countries is an important component of private sector development. ECA has encouraged the process and provided support through activities designed to promote conditions and measures necessary for privatization, including actions aimed at strengthening the institutions of privatization; rationalizing public policies and regulations to open up the process of privatization to the indigenous business community; defining measures to establish investor confidence; and providing technical assistance to enhance the capability of indigenous institutions responsible for rationalizing privatization opportunities in Africa.

45. African countries can benefit from how other countries were able to stimulate growth and managed to surmount the numerous obstacles to private sector development through cooperation with countries of similar background and experiences. Experiences abound that could provide useful lessons on the process to overcome constraints, such as lack of technological knowledge and lack of skilled manpower, through South-South cooperation. In this regard, ECA as the lead agency coordinating the South-South component of the United Nations Special Initiative, has given significant attention to promoting South-South cooperation as a vehicle for strengthening private sector development, particularly for facilitating trade and service flows.

Development and or strengthening of capital markets development in Africa

46. There is growing evidence of the relationship between access to resources and a thriving private sector. Increased importance of capital markets on the continent is evidence by a number of developments taking place in the region. This should be seen against the number of stock markets established in the last couple of years, which is on the increase. There has been significant growth in market indicators, market capitalization has grown significantly, trading value has increased substantially and the listing has risen by some impressive percentages, with some African markets ranking among the best by certain indicators. However, given the fact that African capital markets in general are very much at the rudimentary stage, representing approximately 10 per cent of emerging markets, listing less than 15 per cent of emerging markets' capitalization and only about 2 per cent of emerging markets' trading value, they need enormous boosting. Efforts to promote capital markets as channels of funds to private sector development has been given strategic focus in the private sector development activities of ECA. The main objectives of activities in this area are to assess the needs of capital markets development, expose and facilitate access of entrepreneurs to capital markets networks, encourage dialogue and strengthen investment transactions, as well as

to provide guidance to develop regulatory framework and institutional capacities to enhance capital markets operations.

Promoting public private partnership

47. The transition from State-dominated economic management to a market-driven one, opted by many African countries, has created the need to enhance and strengthen the relationship between Governments and private sector actors. At the level of Governments, policies are shifting to reflect their appreciation of the critical role that the private sector can play and the need for opening space for their participation in the economic development process. Despite these laudable intentions, Governments continue to dictate and formulate policies that are not always conducive to private sector development. At the level of the private sector, there is a need to increase their capacities to effectively meet the challenges and develop the approach for working with Governments.

48. African economies stand to gain from well defined public/private sector partnership. Such partnerships are particularly necessary for promoting and sustaining accelerated economic growth and development. The African private sector, which receives almost no support from Governments, will need all-round support to improve the quality and standards of their products to compete both within their local and international markets. They will need an enabling environment for their effective functioning. The policy environment should encourage policy dialogue and information-sharing between the public and private sectors on matters related to economic development, and to enable them define their roles in and contributions to the economic development process.

49. The ECA response to this need has been through activities aimed at enhancing dialogue between the public and private sectors on development management issues, including private sector development. One such activity is the "Guest lecture series", which provides opportunities to discuss and share experiences on how private and public sectors can work together to formulate viable policies and strategies.

IV. Progress in the implementation of the Alliance Plan of Action

50. The Alliance was launched in October 1996 to serve as a platform for focusing the attention of African decision makers and the international community on the industrial development challenges facing the continent and its growing marginalization in global manufacturing. The Alliance recognizes that globalization has changed the nature and pattern of industrialization, and that competition and strategic alliances are becoming an important component of business strategy. Integration with the global economy is critical to gain access to markets, relevant technologies, skills and know-how, and thus to opening the way for African countries to industrialize in a manner that was not possible when inward-looking industrialization policies prevailed. The Alliance therefore underscores the principal role of the private sector in promoting industrial transformation and sustainable economic development. Since its launch, the Alliance has been successful in achieving a number of milestones:

Coordinating mechanisms

51. The Plan of Action of the Alliance for Africa's Industrialization, which was endorsed by the Conference of African Ministers of Industry at Accra in May 1997, by OAU in June 1997 and by the General Assembly in December 1997. In addition, an effective institutional framework was established in August 1998 in response to the OAU Harare Declaration, to ensure African ownership of the Alliance, consisting of the Patrons' Group, of Heads of State and Governments (for Group members, see annex, footnote [a]), currently chaired by President Konan Bédié of Côte d'Ivoire, a ministerial Steering Committee and a joint UNIDO-OAU-ECA secretariat.

52. Several countries in Africa initiated the process of setting up industrial partnership councils (IPCs) to serve as platforms for public-private sector consultative groups and focal points for the Alliance. IPCs are central to the development of the public-private sector partnership that is essential for promoting private sector-led industrial development in Africa. IPCs have been successfully established in a number of pilot countries in 1997 and 1998, including Ghana, Côte d'Ivoire, Nigeria, Senegal and Zambia.

Capability-building

53. The African Privatization Network was launched in 1996 to facilitate the sharing of experiences and expertise among African privatization agencies. Two working sessions were organized at Accra (November 1996) and in Zambia (November 1997).

54. A meeting for networking among executives of African investment promotion agencies (IPAs) and the UNIDO

Investment Promotion Service was organized in October 1996 at Abidjan. Participants from 10 African countries explored opportunities for cooperation and ways in which UNIDO could provide technical assistance for capability-building in IPAs.

55. UNIDO, in cooperation with the Institute for Economic Development and Planning, organized in late 1997 and the first half of 1998 at Dakar a training programme for African policy makers on capability-building for interactive policy formulation. Nine countries and one subregional organization participated in the programme, which involved the use of consultants and UNIDO's substantive expertise.

56. In response to the recommendations of the third ministerial symposium and UNIDO General Conference resolution GC.6/Res.8, UNIDO carried out in 1997 a needs assessment project in 18 African and seven Asian least developed countries with a view to establishing an effective information network in these countries. This project aimed at assessing the possibilities and prospects for networking existing industrial resources to support the needs of the business community for information and value-added services, both at the national and international levels. The project thus laid the ground work for (a) meeting the information and value-added needs of local SMEs and (b) providing a suitable window for the international business community on locally available business opportunities. Based on the outcome of the needs assessment project, follow-up projects are prepared with a view to establishing information centres in each LDC based on commercial operation.

Agro-industry development

57. An expert group meeting on conceptual framework for promoting the competitiveness of agro-industries in Africa was held in February 1997 at Vienna. Among the participants were researchers from key institutions in Africa and Europe, including the Overseas Development Institute of the United Kingdom, the International Institute of Tropical Agriculture in Nigeria, the Institute of Food Studies and Agro-industrial Development in Denmark, and the Netherlands Economic Institute.

58. In October 1997, UNIDO and the Office of the Special Coordinator for Africa and the Least Developed Countries, in cooperation with the Common Fund for Commodities, the West African Rice Development Association and the Palm Oil Institute of Malaysia, organized inter-agency consultations to establish institutional partnerships for promoting agro-industries in Africa as part of the Tokyo International Conference on African Development.

59. A project was launched to carry out analyses of agro-industrial experiences in Asia and viable avenues of replication in selected African countries. The project was intended to support efforts in selected African countries to replicate product-specific best practices proven to be successful in enhancing value added, employment, productivity and competitiveness. Substantive consultations were held with UNIDO counterparts on the project concept, which was well received as a substantive input to African countries long-term industrial visions, currently being conceived by a number of countries. It was originally envisaged to replicate six Asian countries' agro-industrial success stories in 12 African countries.

Investment and private sector development

60. A private sector forum was organized at Accra in May 1997 as part of the 13th meeting of CAMI in order to institutionalize the public-private sector partnership at the regional level. For the first time in its history, the CAMI meeting included a joint session between industry ministry officials and over 100 business representatives from a number of African countries.

61. A round table of executives of African investment promotion agencies was organized at Accra in May 1997, in cooperation with the World Bank Multilateral Investment Guarantee Agency in order to share experiences in the struggle to increase Africa's share of global foreign direct investment. While recognizing the cardinal importance of a stable macroeconomic environment and political stability in attracting FDI, the participants also highlighted the use of new information technology, networking, various forms of collective action and direct contacts between entrepreneurs as important strategies for increasing investments. The Association of African Investment Promotion Agencies was launched at the closing of the round table.

62. Major investment promotion and partnership forums were organized at Abidjan in November 1997, in Guinea in May 1998, in Mozambique in June 1998 and in Tunisia in June 1999. UNIDO, in close cooperation with the national investment promotion agencies and private sector organizations, worked closely to identify and formulate projects for promotion abroad through UNIDO investment promotion offices in Europe and Asia. Entrepreneurs from Europe and Asia were matched with those from the host country to discuss specific projects and sign letters of intent for possible joint ventures.

Advocacy

63. The newsletter *Industrial Africa* was launched in 1997 to ensure constant dissemination of information to Alliance partners and to highlight UNIDO services in Africa. A unique feature of the newsletter, serving as an effective means of awareness creation, is that it also includes views of African ministers of industry and the private sector on UNIDO programmes in their countries. In this respect, the newsletter provides UNIDO with an objective feedback on the effectiveness of ongoing projects. Quarterly issues are anticipated with a circulation of 6,000 copies. The newsletter also appears in electronic form on the World Wide Web.

64. An NGO forum was organized in November 1997 at Dakar to explore the role of NGOs in private sector development and to incorporate civil society in the implementation of the Alliance. The forum was attended by more than 70 representatives of African and international NGOs. The recommendations of the forum were reviewed at the fourth least developed countries ministerial symposium and the UNIDO General Conference in November 1997 at Vienna.

65. UNIDO, in cooperation with the secretariats of OAU and ECA, organized the first forum on the theme "The implications of the Asian financial crisis for African economies" in September 1998 at Abidjan, which attracted several ministers of industry, representatives of civil society, and business editors from leading international and African newspapers and magazines.

V. Conclusions and recommendations

66. The priority accorded to industrial development issues at the thirty-fifth OAU Summit lends credence to the growing concern of African leaders about Africa's marginalization in the globalization process, particularly in the globalization of industrial production. It is clear from the analysis contained in section II above that the region needs to be integrated into the global economy, and that the production and trade of products with a high value-added content is key to accelerating the speed of successful integration. The region can no longer rely on cheap labour or raw materials for its structural transformation but rather must shift to improving the productivity of its labour, effectively transforming its static comparative advantages to dynamic competitive advantages.

67. To close the income and technological gap between the region and the rest of the world requires a more comprehensive approach, including effective public and private investments in industrial infrastructure, strengthening of technological capabilities through human resource development, institution-building and effective economic governance. To achieve the high growth rates required to alleviate poverty and create employment requires a strategic focus on enhancing manufacturing value added, promotion of rural industrialization and stronger sectoral linkages between industry and agriculture.

68. The efforts by UNIDO to develop country programmes has received a significant boost in 1998 and the first half of 1999, with programmes currently in 15 countries and the formulation of an additional 10 to commence during the second half of 1999. It is critical that financial resources be made available for the implementation of these programmes. While a number of donors have been generous in financing some components of the programmes, much more needs to be done to mobilize the total funding of over $150 million that is required. The donor community is asked to fully support the funds mobilization effort to be launched in the Conference on Industrial Partnership and Investment to be held at Dakar on 20 and 21 October 1999, in response to General Assembly resolution 52/208.

69. To complement the technical assistance provided by UNIDO and other United Nations agencies in the field of industrial development, a number of private sector-oriented initiatives are proposed for the consideration of the General Assembly and donors:

(a) First, there is an urgent need for strengthening the complementarity between aid and investment, i.e., a new development-aid-investment nexus. Development partners need to determine how bilateral or multilateral aid can create the fundamentals that attract foreign private investment in manufacturing in Africa. We must redouble our efforts to improve Africa's infrastructure and human capital in order to attract foreign investment. Africa's own private sector needs capacity-building and skills upgrading in order to offer itself as an attractive partner for the international business world. A development-aid-investment nexus would enable African countries to create an enabling environment more suited to private sector-led industrial development, and to provide more effective entry points for foreign investment and industrial partnership in Africa;

(b) Second, instead of further trade concessions, let there be investment concessions for private sector venture capitalists willing to invest in the manufacturing sector in Africa. By investment concessions, we mean arrangements whereby foreign industrial investment in Africa would be eligible for corporate tax reduction in the investor's home country. The development aspect of such tax compensation

can be assured if the concession is granted for those investments that lead to job creation through enhancement of technological capability and human capital development in the recipient African country and thereby contribute to sustainable livelihood patterns;

(c) Third, there is need for a debt-for-industrial-development swaps as a financing mechanism for industrial projects. This could be a complementary but flexible version of other efforts to reduce the external debt burden on highly indebted and poor countries. It is noteworthy that 33 of the 41 heavily indebted poor countries are in Africa; however, only one has qualified for the Heavily Indebted Poor Countries Initiative. This calls for other flexible mechanisms that combine debt reduction and expansion of the production base of African countries;

(d) Fourth, it is critical to address ways of enhancing investments in small and medium-sized enterprises engaged in manufacturing. Current efforts for financial mediation are too concentrated in microfinance schemes or financing of large-scale ventures. To fill the "missing middle" requires the creative combination of venture capital funds with technical and managerial support to enterprises in order to facilitate start-ups and increase the survival rate of SMEs. It will also be necessary to rapidly implement financial reforms in Africa, including the development of mechanisms for accessing international capital markets.

Annex

Final communiqué of the first meeting of the Patrons Group of Heads of State and Government of the Alliance for Africa's Industrialization[a]

We, the Heads of State and Government, meeting at Algiers on 13 July 1999 in our capacity as the Patrons Group of the Alliance for Africa's Industrialization (AAI), on the occasion of the thirty-fifth ordinary session of the Assembly of Heads of State and Government of the Organization of African Unity and at the initiative of His Excellency Mr. Henri Konan **Bédié**, President of the Republic of Côte d'Ivoire and Chairman of the Patrons Group,

Having examined the progress made in the implementation of the Abidjan Declaration of 23 October 1996, and the Plan of Action of the Alliance for Africa's Industrialization, in close collaboration with the United Nations Industrial Organization (UNIDO), the Organization of African Unity (OAU) and the Economic Commission for Africa (ECA),

Aware of the crucial role which industrialization will have to play in the quantitative and qualitative structural transformation of African societies, job creation and poverty eradication, and reaffirming in this regard our commitment to the objectives and principles set out in the Abidjan Declaration establishing the Alliance for Africa's Industrialization,

Recalling the Declaration on the Industrialization of Africa adopted by the Assembly of Heads of State and Government of OAU at Harare in June 1997,[b]

Taking note with satisfaction of the elaboration in 1998/1999 by UNIDO of about 15 country programmes, in close collaboration with African countries, as part of the implementation of the Plan of Action of the Alliance, and the initial financial contribution made by UNIDO towards the launching of these programmes, as well as the efforts deployed to draw up other similar programmes during 1999 and the years 2000/2001,

1. *Decide as follows*:

(a) To intensify the implementation of the Alliance for Africa's Industrialization as an African strategy aimed at ensuring the continent's industrial development;

(b) To do our utmost to reverse the present trend in the decline of direct investment flows to Africa and to increase Africa's manufactured products with a view to doubling, during the first decade of the new millennium, Africa's share in world industrial production;

(c) To this effect, to promote a national consensus among all the stakeholders in the industrial sector through the establishment, among others, of industrial partnership councils in order to ensure the formulation, as early as possible, of appropriate and coherent policies, and to facilitate their implementation;

(d) To finalize the composition of the Alliance Steering Committee through the appointment of representatives from the private sector;

(e) To mobilize first and foremost our own internal resources towards the industrialization of Africa, and to eliminate all existing obstacles and constraints to investments that hold out prospects for technologies, know-how and management;

(f) To intensify our efforts for advocacy of the industrialization of Africa and our determination to mobilize financial resources in favour of national programmes within the context of the Alliance, through bilateral contacts and visits to development partners;

(g) To broaden the concept of the donors meeting initially planned by the Conference of African Ministers of Industry (CAMI) at its 13th meeting and endorsed by the OAU in its Declaration on the Industrialization of Africa,[b] and to convene it as the Conference on Industrial Partnerships and Investment in Africa at Dakar on 20 and 21 October 1999, in which we will also participate;

2. *To this end, request* the international community to support our efforts with the following actions:

(a) Give more sustained attention to bilateral and multilateral cooperation programmes by contributing to the attainment of the Alliance's objectives;

(b) Provide substantial financial support to fund country programmes drawn up in the context of the Alliance;

3. *Furthermore, invite* all African countries, our development partners, multilateral financial institutions, the programmes and agencies of the United Nations system and the private sector, both local and foreign, to actively participate in the Conference on Industrial Partnerships and Investment in Africa in order to establish new partnership ties between African Governments and these institutions, as

well as public and private sector enterprises in the context of the Alliance for Africa's Industrialization;

4. *Commend* the Director-General of UNIDO for the utmost priority given to technical cooperation programmes in Africa. We call upon him to maintain this priority;

5. *Call upon* the Director-General of UNIDO to do his utmost to organize within the framework of the follow-up to the Second Tokyo International Conference on African Development (TICAD-II) and in the context of the Plan of Action of the Alliance for Africa's Industrialization, two African-Asian round tables, one on the agro-industrial experiences of Asian countries and the other on small and medium-sized enterprises development and joint ventures in the agro-industrial sector;

6. *Take this opportunity* to express our profound gratitude to the Government of the People's Democratic Republic of Algeria for hosting the first meeting of the Patrons Group of the Alliance for Africa's Industrialization in conjunction with the thirty-fifth OAU Summit;

7. *Request* the Steering Committee of the Alliance, in cooperation with the competent institutions in our countries and the OAU/ECA/UNIDO joint secretariat, to follow up on the decisions contained in this communiqué and to submit a report thereon to our meeting;

8. *Finally, decide* to meet again within two years to evaluate the progress made in the implementation of the Alliance.

Done at Algiers, 13 July 1999

Notes

[a] The Patrons Group is composed of the heads of State and Government of the following countries:

West Africa
Côte d'Ivoire
Ghana
Nigeria
Senegal

Central Africa
Cameroon
Republic of the Congo
Gabon

North Africa
Algeria
Tunisia

East Africa
Eritrea
Ethiopia
Sudan
Uganda

Southern Africa
Botswana
Lesotho
Namibia
Zimbabwe

The Group is chaired by the President of Côte d'Ivoire (see OAU/AEC/Dec.1 (II) of 10 June 1998).

[b] AHG/Decl.4 (XXXIII).